MULTIMEDIA UNIVERSITY

STUDENT IDENTIFICATION NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 3, 2022/2023

BEC1034 - MICROECONOMICS

6TH OCTOBER 2023
9:00 A.M. – 11:00 A.M.
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of 9 pages excluding the cover page.
2. This question paper is divided into two parts. Part I consists of 40 multiple choice questions and Part II consists of 3 structured questions. Attempt **ALL** questions.
3. Please use **pen** to write the answers.
4. Please print all your answers for Part I in the **OMR Sheet** and Part II in the **Answer Booklet** provided.

PART I: MULTIPLE-CHOICE QUESTIONS (TOTAL: 40 MARKS)

1. Which of the following market types has all firms selling products so identical that buyers do not care from which firm they buy?
   a. perfect competition
   b. oligopoly
   c. monopolistic competition
   d. monopoly

2. Which of the following describes what happens to a consumer's budget line if that consumer's budget increases? The budget line _____
   a. becomes steeper.
   b. shifts farther away from the origin of the graph.
   c. does not change.
   d. becomes more horizontal.

3. A price-taking firm _____
   a. cannot influence the price of the product it sells.
   b. talks to rival firms to determine the best price for all of them to charge.
   c. sets the product's price to whatever level the owner decides upon.
   d. asks the government to set the price of its product.

4. Along an indifference curve, if the marginal rate of substitution is 5, then the consumer is willing to _____.
   a. pay RM5 for one unit of the good measured along the *y*-axis.
   b. give up 1 unit of the good measured along the *y*-axis for 5 units of the good measured along the *x*-axis.
   c. give up 5 units of the good measured along the *y*-axis for 1 unit of income, that is, RM1 of income.
   d. give up 5 units of the good measured along the *y*-axis for 1 unit of the good measured along the *x*-axis.

5. Which of the following is the best example of a perfectly competitive market?
   a. diamonds
   b. athletic shoes
   c. soft drinks
   d. tomatoes

6. One goal a firm tries to achieve when it advertises a product is to _____
   a. make the demand curve for the product more elastic.
   b. shift the demand curve for the product to the left.
   c. make the demand curve for the product unitary elastic.
   d. make the demand curve for the product more inelastic.

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7. In long-run equilibrium, compared to a perfectly competitive market, a monopolistically competitive industry produces a _____ level of output and charges a _____ price.
   a. higher; lower
   b. lower; lower
   c. lower; higher
   d. higher; higher

8. _____ cost is defined as a cost of production that does not entail a direct money payment.
   a. A fixed
   b. An implicit
   c. A marginal
   d. An explicit

9. Which of the following would ***not*** be a determinant of demand?
   a. the price of related goods
   b. income
   c. tastes
   d. the prices of the inputs used to produce the good

10. Suppose you like banana cream pie made with chocolate pudding. Assuming all other things are constant, you notice that the price of banana cream pie is higher. How would your demand for chocolate pudding be affected by this?
    a. It would decrease.
    b. It would increase.
    c. It would be unaffected.
    d. There is insufficient information given to answer the question.

11. What will happen in the rice market if buyers are expecting higher prices in the near future?
    a. The demand for rice will increase.
    b. The demand for rice will decrease.
    c. The demand for rice will be unaffected.
    d. The supply of rice will increase.

12. When the price of a good or service changes,
    a. there is a movement along a stable demand curve.
    b. demand shifts in the opposite direction.
    c. demand shifts in the same direction.
    d. supply shifts in the opposite direction.

Continued..

13. Suppose that there is an increase in input prices. We would expect _____
    a. supply to increase.
    b. supply to decrease.
    c. supply could increase or decrease.
    d. supply to remain unchanged

14. When the price is higher than the equilibrium price,
    a. a shortage will exist.
    b. buyers desire to purchase more than is produced.
    c. sellers desire to produce and sell more than buyers wish to purchase.
    d. quantity demanded equals quantity supplied.

15. When there is a shortage in a market,
    a. there is downward pressure on price.
    b. there is upward pressure on price.
    c. the market could still be in equilibrium.
    d. the price must be above equilibrium.

16. Which of the following would ***not*** shift the demand curve for a good or service?
    a. a change in income
    b. a change in the price of a related good
    c. a change in expectations about the price of the good or service
    d. a change in the price of the good or service

17. The downward-sloping demand curve reflects which of the following?
    a. The price is positively related to quantity supplied.
    b. There is an inverse relationship between price and quantity demanded.
    c. There is a direct relationship between price and quantity demanded.
    d. When the price falls, buyers willingly buy less.

18. Holding the nonprice determinants of supply constant, a change in price would _____
    a. result in a change in supply.
    b. result in a movement along a stable supply curve.
    c. result in a shift of demand.
    d. have no effect on the quantity supplied.

19. Wheat is the main input in the production of flour. If the price of wheat increases, all else equal, we would expect _____
    a. the supply of flour to be unaffected.
    b. the supply of flour to decrease.
    c. the supply of flour to increase.
    d. the demand for flour to decrease.

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20. The reason the substitution effect works to encourage a consumer to buy less of a product when its price increases is:
    a. the real income of the consumer has been increased.
    b. the real income of the consumer has been decreased.
    c. the product is now relatively more expensive than it was before.
    d. other products are now relatively more expensive than they were before.

21. As the number of sellers in an oligopoly grows larger, an oligopolistic market looks more like _____
    a. A monopoly
    b. A duopoly
    c. A competitive market
    d. A collusion solution

22. In general, game theory is the study of _____
    a. how people behave in strategic situations.
    b. how people behave when the possible actions of other people are irrelevant.
    c. oligopolistic markets.
    d. all types of markets, including competitive markets, monopolistic markets, and oligopolistic markets.

23. The fundamental source of monopoly power is _____
    a. barriers to entry.
    b. profit.
    c. decreasing average total cost.
    d. a product without close substitutes.

24. The slope of the indifference curve is equal to which of the following?
    a. One
    b. Marginal utility
    c. Marginal rate of substitution
    d. None of these

25. Two indifference curves cannot cut each other because of which of the following?
    a. They represent those combinations of two goods that give the same satisfaction.
    b. The slope is downwards.
    c. Each indifference curve represents a different level of satisfaction.
    d. They are convex to origin.

26. As you move down an indifference curve, you'll see that:
    a. Some consumers prefer one consumption stand over another.
    b. As more of a good is consumed, the marginal rate of substitution increases.
    c. The rate of marginal substitution is constant.
    d. Consumers have no preference for one type of consumption over another.

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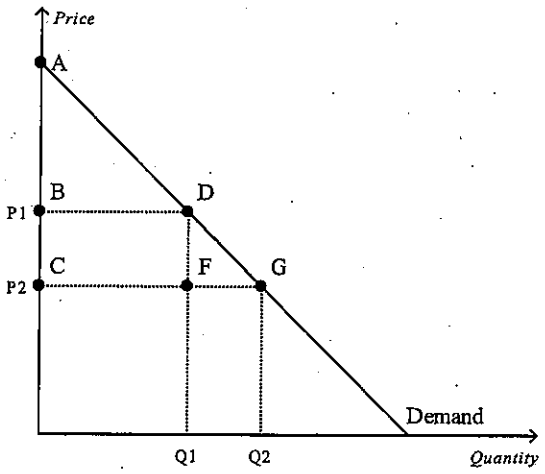

Figure 1

27. Refer to Figure 1, which area represents consumer surplus at a price of P1?
    a. ABD
    b. ACG
    c. BCDF
    d. DFG

28. If the total cost curve gets steeper as output increases, the firm is experiencing _____
    a. diseconomies of scale.
    b. economies of scale.
    c. diminishing marginal product.
    d. increasing marginal product.

29. Economic profit is equal to _____
    a. total revenue minus the explicit cost of producing goods and services.
    b. total revenue minus the opportunity cost of producing goods and services.
    c. total revenue minus the accounting cost of producing goods and services.
    d. average revenue minus the average cost of producing the last unit of a good or service.

30. What is the difference between perfect competition and monopolistic competition?
    a. Perfect competition has a large number of small firms while monopolistic competition does not.
    b. In perfect competition, firms produce identical goods, while in monopolistic competition, firms produce slightly different goods.
    c. Perfect competition has no barriers to entry, while monopolistic competition does.
    d. Perfect competition has barriers to entry while monopolistic competition does not.

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31. When marginal cost exceeds average total cost,
    a. average fixed cost must be rising.
    b. average total cost must be rising.
    c. average total cost must be falling.
    d. marginal cost must be falling.

32. The amount of money that a chili farmer could have earned if he had planted eggplants instead of chili is _____
    a. an explicit cost.
    b. an accounting cost
    c. an implicit cost.
    d. forgone accounting profit.

33. Accounting profit is equal to _____
    a. marginal revenue minus marginal cost.
    b. total revenue minus the explicit cost of producing goods and services.
    c. total revenue minus the opportunity cost of producing goods and services.
    d. average revenue minus the average cost of producing the last unit of a good or service.

34. When adding another unit of labor leads to an increase in output that is smaller than the increases in output that resulted from adding previous units of labor, the firm is experiencing _____
    a. diminishing labor.
    b. diminishing output.
    c. diminishing marginal product.
    d. negative marginal product.

35. The simplest type of oligopoly is _____
    a. monopoly.
    b. duopoly.
    c. monopolistic competition.
    d. oligopolistic competition.

36. Which of the following statements is ***not*** correct?
    a. Fixed costs are constant.
    b. Variable costs change as output changes.
    c. Average fixed costs are constant.
    d. Average total costs are typically U-shaped.

37. When firms are said to be price takers, it implies that if a firm raises its price,
    a. buyers will go elsewhere.
    b. buyers will pay the higher price in the short run.
    c. competitors will also raise their prices.
    d. firms in the industry will exercise market power.

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38. Who is a price taker in a competitive market?
    a. buyers only
    b. sellers only
    c. both buyers and sellers
    d. neither buyers nor sellers

39. For a large firm that produces and sells automobiles, which of the following costs would be a variable cost?
    a. the RM20 million payment that the firm pays each year for accounting services
    b. the cost of the steel that is used in producing automobiles
    c. the rent that the firm pays for office space
    d. All of the above are correct.

40. For a construction company that builds houses, which of the following costs would be a fixed cost?
    a. the RM50,000 per year salary paid to a construction foreman
    b. the RM30,000 per year salary paid to the company's bookkeeper
    c. the RM10,000 per year premium paid to an insurance company
    d. All of the above are correct.

PART II: THREE (3) STRUCTURED QUESTIONS (TOTAL: 60 MARKS)

Question 1

The restaurants serving middle eastern food in Petaling Jaya are in a monopolistically competitive industry in the long-run equilibrium. One of the restaurant owners who is a friend of yours, asks for your advice. He tells you that, each night, not all tables in his restaurant are full. He also tells you that if he lowered the prices on his menu, he would attract more customers and that doing so would lower his average total cost.

a. Should he lower his prices? Explain. (2 marks)
b. Illustrate with a graph showing the demand curve, marginal revenue curve, marginal cost curve and average total cost curve for this restaurant to explain your advice. (6 marks)
c. Indicate in your graph what would happen to the restaurant owner's profit if he were to lower the price so that he sells the minimum-cost output. Is there excess capacity? (6 marks)
d. Discuss the three attributes of monopolistic competition. (6 marks)

(Total: 20 marks)

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Question 2

Suppose Bookworm Publishing is the only publishing house in city known as Soar. The publisher faces the following demand schedule for the next novel from one of its popular authors:

Price (RM)	Quantity Demanded (unit)	Total Revenue (RM)	Marginal Revenue (MR)	Total Cost (RM)
100	0	0	--	1,000
90	1,000	90,000	90	21,000
80	2,000	160,000	70	41,000
70	3,000	210,000	50	61,000
60	4,000			
50	5,000			
40	6,000			
30	7,000			
20	8,000	160,000	-50	161,000

The author is paid RM1,000 to write the novel and the marginal cost of publishing the novel is a constant at RM20 per novel.

a. Find the missing values of the total revenue, marginal revenue and total cost in the table above. (6 marks)
b. Find the profit at each level of quantity. Identify the profit-maximizing output level and price that Bookworm Publishing would choose. (7 marks)
c. Illustrate with a graph showing the marginal-revenue, marginal-cost, and demand curves. At what quantity do the marginal revenue and marginal-cost curves cross? Is it more profitable to decrease or increase publishing the novels? (4 marks)
d. In your graph drawn in part (c), shade the deadweight loss area. Explain the term deadweight loss. (3 marks)

(Total: 20 marks)

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Question 3

A large share of quail eggs in Malaysia come from two suppliers namely Kimchi Berhad and Kimchong Berhad. Suppose that the marginal cost of egg production is constant at RM1 per tray of quail eggs, and the demand for quail eggs is described by the following table:

Price (RM)	Quantity ('in thousands of quail egg trays)
8	5
7	6
6	7
5	8
4	9
3	10
2	11
1	12

a. If there were many suppliers of quail eggs, indicate what would the price and quantity be. (3 marks)
b. If there were only one supplier of quail eggs, indicate what would the price and quantity be. (5 marks)
c. If Kimchi Berhad and Kimchong Berhad formed a cartel, indicate what would the price and quantity be. (2 marks)
d. If the companies split the market evenly, indicate what would Kimchong Berhad's production and profit be. (3 marks)
e. Indicate what would happen to Kimchong Berhad's profit if it increased its production by 1,000 while Kimchi Berhad stuck to the cartel agreement. (3 marks)
f. Based on your answers in part (c) through (e), explain why cartel agreements are often not successful. (4 marks)

(Total: 20 marks)

End of paper